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FRONT PAGE - COMPANIES AND MARKETS

Subprime fears lift Treasuries *Repayment worries push investors to safe havens *Attention shifts to Alt-A market *Insurance prices for defaults rocket.

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Treasury prices rose yesterday as fixed income investors sought a safe haven amid fears that repayment problems involving "subprime" US mortgage borrowers could have knock-on effects in the broader Dollars 8,000bn mortgage market and beyond.

The latest concerns centre on the so-called Alt-A market, in which late payments and defaults are running at four times the historical rate.

Alt-A borrowers can get loans with loose terms - such as no proof of income - but have slightly better credit than the weakest subprime borrowers.

"The delinquency numbers for the 2006 Alt-A originations are materially worse than a lot of people would have expected," said Charles Sorrentino, mortgage analyst at Merrill Lynch.

Yields on 10-year Treasuries fell four basis points yesterday to 4.633 per cent.

The price of insuring against default on subprime mortgage bonds also lingered near record levels yesterday, after hitting a record high on Friday.

The annual cost of credit protection on the ABX index of mortgage bonds rated BBB- jumped to 15 per cent on Friday before slipping back to end the week at about 12.5 per cent. It began last week below 10 per cent and was only 2.5 per cent three months ago.

Many analysts still doubt subprime problems will have much impact on other segments of the credit or equity markets, although some have started to discuss the possibility.

There are particular concerns about the estimated Dollars 600bn of adjustable rate mortgages - of which two-thirds are subprime - that are scheduled to reset at a higher interest rate during 2007.

Analysts worry that higher rates will lead to more foreclosures and lower consumer spending, hurting the economy. "The sub-prime story seems to have developed legs as Treasury traders seized on the idea that ABX (index) woes may seep into other markets and create a credit dilemma," said William O'Donnell, interest rate strategist at UBS. He said subprime problems were "topic number one in the US rates market place".

Michael Kastner, portfolio manager at SterlingStamos, warned that those who believe the fallout will remain contained could be caught on the back foot. "Investors are not fully pricing in the risk of contagion, but as structured deals start to go sour and get downgraded, the pain will spread."

Shares in subprime lenders were hit hard yesterday. Novastar Financial slid 6.1 per cent to Dollars 7.96, and New Century Financial fell 1.8 per cent to Dollars 15.24. Shares in Countrywide, were off 1.5 per cent at Dollars 38.72.

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